

FORECAST UNCERTAINTIES

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Final Session: Aviation Challenges for the New Millennium

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There are a number of positive signs that point toward a continuation of the moderate to strong growth that the commercial and general aviation industries have witnessed over the past decade. One is the projected strong growth in both the U.S. and worldwide economies. However, there are also a number of uncertainties that could cause the growth of aviation services to be less than that projected. Clearly, slower economic growth would slow the demand for aviation services. Potential risks in this area include:

- A failure of the Japanese economy to respond to government stimulus could slow the expected economic recovery in Southeast Asia, thus slowing the expected recovery in air travel on routes to Japan and the Far East.
- A failure of the Brazilian government to implement necessary financial reforms could slow the growth of traffic on Latin America routes.
- Over the past several years, the U.S. economy has benefited considerably from the “wealth effect” created by the large increase in market equity values. This has resulted in unprecedented increases in both consumer spending and consumer sentiment--the Conference Board’s index of consumer confidence for December was at its highest level in more than 3 decades. Any large sustained correction in the stock market equity values, considered inevitable by many economists, could be followed by a sharp decline in consumer spending for goods and services, including air travel.
- Additionally, the rising cost of fuel could present a major risk for all segments of the economy. This is particularly true for the aviation industry that has seen its fuel prices increase 46 percent since last March. Higher fuel prices must ultimately be passed on to the consumer in the form of higher fares. Higher fares will slow the growth in air travel.
- Any slowing of U.S. economic growth will impact the earnings of corporations and ultimately, travel budgets. Business could implement a number of measures to contain rising travel costs, including a cutback in commercial air travel and/or a shift to travel by corporate jets or fractional ownership companies.
- The general aviation industry is also vulnerable to an economic slowdown or recession, although not to the same extent it would have been several years ago. The turnaround in the demand for general aviation products and services has occurred during a period of unprecedented economic growth. No one actually knows how the industry or its customers would react to a protracted slowing of demand or an economic recession.
- Increased flight delays are becoming a growing problem to the airlines, the traveling public, and the FAA. Delays are not a recent phenomena, but a fact of life for air transportation, be they weather, schedule, or air traffic control related. However, delays are closely linked to demand and increased delays are a major potential risk to achieving the aviation demand forecasts presented at this conference.

Given the strong growth in aviation demand during the 1990s, the question is why delays did not become an issue until just recently. Prior to 1997, a number of factors combined to constrain the growth of activity at FAA air traffic facilities. Activity at FAA/contract towered airports actually

declined by 0.3 percent annually during the 1990-96 time period. However, en route center activity increased at an annual rate of 1.4 percent during the same 7-year period, the higher growth due to its larger percentage of commercial activity as compared to tower activity—71.2 versus 36.9 percent.

Air carrier passenger traffic grew by 4.1 percent annually during the 1990-96 time period. However, much of the growth was absorbed through increased load factors (up 5.8 percentage points). During this same period, regional/commuter traffic increased at annual rate of 12.8 percent. Again, a large part of this growth was absorbed through increased load factors (up 4.3 percentage points) and increased aircraft size (up 5.3 seats). However, during this same period of time, both general aviation and military activity at FAA facilities remained below pre-1990 levels.

It is the growth over the last 3 years that has given rise to the recent increase in delays. During this period, activity at towered airports and en route centers grew at average annual rates of 3.3 percent. The reasons behind these relatively large increases are as follows:

- Large air carrier load factors appear to be approaching their maximum levels. Also, based on known future aircraft orders and options, there will be only small efficiency gains to be achieved through increased aircraft size. It appears that the industry has essentially decided to compete on schedule frequency. Therefore, future activity growth will closely mirror the projected rate of increased passenger demand.
- A total of 243 new regional jet aircraft were delivered to U.S. regional/commuter air carriers over the past 2 years. Despite continued increases in load factors and aircraft seat size, regional/commuter capacity (or ASMs) grew by 23.3 percent during these 2 years while commuter/air taxi activity at FAA/contract towers increased by 5.4 percent. Regional/commuter activity at en route centers was up 13.2 percent during the same 2-year period. A total of almost 700 regional jets are scheduled to be delivered to the regional/commuter fleets over the next 5 years and more than 1,200 will be delivered over the entire forecast period.
- General aviation is growing as demonstrated by the increased activity at FAA air traffic facilities over the past 3 years. General aviation activity at FAA/contract towers was up 13.5 percent, a large part of it business and corporate activity at the 29 large hub airports (up 8.5 percent). Activity at en route centers was up 12.1 percent. The large numbers of jet aircraft on order by fractional ownership companies point toward a continuation of strong business/corporate travel while the success of the industry's "learn to fly" programs assure continued growth in both instructional and personal flying.
- Military budgets appear to be on the increase and this has resulted in an increase in military flying. Therefore, military activity at towered airports was up 17.2 percent over the past 2 years; center traffic increased 4.4 percent. If future military budgets continue to increase or remain stable, we can expect military flying to continue to increase in future years.

A projected high level of growth among all four-user groups is a phenomenon that has not been witnessed by the FAA since the late 1970s. What these increased activity levels presage in terms of future air traffic delays or constraints on future demand is something that should be of concern to the FAA, the commercial and general aviation industries, and the flying public.

If the economic scenarios presented at this conference--sustained moderate growth for both the U.S. and world economies--are achieved, the demand for commercial and general aviation

products and services will continue to expand throughout the forecast period. The real question is whether there will be enough capacity--airside and landside--to accommodate the projected growth.

The FAA reauthorization bill has stalled in conference. The Administration, the Senate and the House all agree that what the FAA needs is a steady, consistent, predictable funding stream for the FAA.

We need a reauthorization that provides the FAA with the funding stream and with the flexibility to keep pace with a dynamic industry.

We need a governance structure that helps us make the right decisions at the right time — neither too quickly nor too slowly.

We need funding and budgeting that is directly tied to the needs of the system and is able to react to those needs in the same dynamic way that the industry is growing.

And, together, we need to better target our airport infrastructure resources — AIP and PFC's — to ensure that the system will be able to handle the growing demand and that access to the system is improved for Americans everywhere.

It's often said that changes in government come out of crisis. Can we act before crisis forces our hand? This is an industry that has long been characterized by passion, adventure, and vision — all great qualities. Let's add focus and commitment to infrastructure to the list this year.

Let's work together to make the changes so necessary for our future. Let's leave a legacy for 21st century aviation. Let's just fix it.